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TAX FOUNDATION'S VOL. 33, NO. 3 APRIL 1989

TAX·FEATURES

Tax Freedom Day Is May 4!

FY'89 Tax Burden Up $65 Billion; Individual Taxpayers Hit Hard, Corporations Even Harder

Federal taxes will climb 7.4 percent in the 1989 fiscal year, hitting $949.6 billion, compared with $884.4 billion in FY1988, according to Tax Foundation analysis of the projections in the President's 1990 Budget. For individual income taxpayers this represents a 6.0 percent tax increase over last year. For corporations, the news is even less pleasant. They will take a $107 billion hit, a 13.2 percent jump over fiscal 1988 levels.

Tax Burdens by State

Federal tax burdens, predictably, are heaviest in the ten most populous states:

	($Millions)		($Millions)
California	$ 121,620	Pennsylvania	$ 46,010
New York	83,634	New Jersey	43,453
Texas	58,871	Ohio	39,893
Illinois	49,609	Michigan	36,609
Florida	49,109	Massachusetts	29,422

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Elsie M. Watters

Dr. Elsie M. Watters, former Vice President of Research for the Tax Foundation and an internationally known expert on state-local public finance and tax policy, died March 28, 1989, after a long illness. She was associated with the Foundation for 23 years prior to her retirement in 1986.

In 1988, Dr. Watters received the Governmental Research Association's Gruenberg Award, presented by GRA trustees for her "significant contribution to the governmental research effort." Before joining the Tax Foundation, she was Associate Professor in the School of Business Administration, Tulane University, New Orleans, LA, and served as an economic consultant to leading Louisiana firms.

Tax Freedom Day for 1989 falls on May 4. The Tax Foundation estimates it would take the average American 124 days—from January 1 to May 4—to satisfy all Federal, state and local tax obligations, with every cent "earned" from the beginning of the year going to the tax collectors.

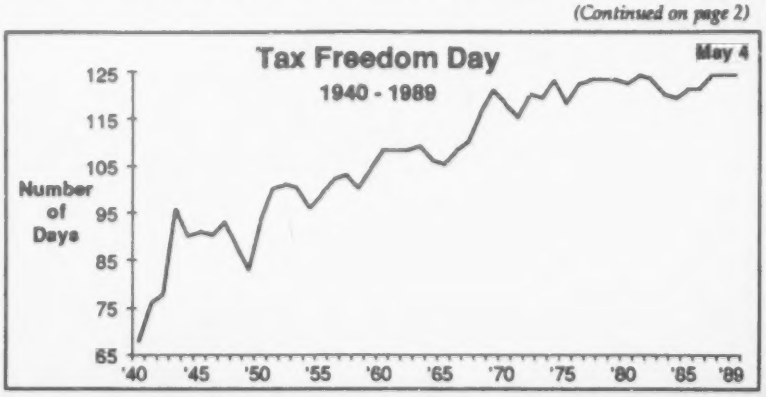
The good news is that we are no worse off than last year, when it also required 124 days to pay the tax bill. However, we finished this chore on May 3 because 1988 was a leap year. The bad news is that we are no better off relative to the overall tax burden. In fact, we are no better off than in 1981, despite strong economic growth and much ballyhooed cuts in income tax rates. This standoff can be attributed to three principal factors:

1. The base broadening provisions in the Tax Reform Act of 1986 and other legislation have subjected a greater percentage of income to taxation.
2. Social Security taxes have increased faster than the overall economy.
3. State and local taxes have continued to rise partially in reaction to reductions in Federal aid programs.

The Tax Bite and The Worker

Measuring the bite that taxes take from the typical worker's eight-hour paycheck provides another perspective on the weight of government on the private production of the nation. This year, the average worker will "labor" 2 hours 43 minutes to satisfy Federal, state and local revenue collectors. That's a minute more than last year (not

(Continued on page 2)



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enough to change the calendar Tax Freedom Day). The Federal government will claim 1 hour and 47 minutes worth of those wages; state-local needs will take a 56-minute chunk.

> ***"Corporations may be the conduit for paying taxes but it is the shareholders, employees, and customers who absorb the real burden."***

Tax Freedom Day and the tax bite in the 8-hour day involve some fairly simple calculations and a sweeping, though realistic, assumption. That assumption is that all taxes, including taxes on business and personal consumption, are ultimately borne by individual producers in their capacities as wage earners, proprietors and employers of capital. Corporations may be the conduit for paying taxes but it is the shareholders, employees, and customers who absorb the real burden. Sales and excise taxes are really "paid" by producers—who can be consumers too, of course. In our view, producers are best represented in an overall statistical sense by net national product. (Net National Product equals Gross National Product less capital consumption allowances. A technical paper is available which explains why NNP is preferable to GNP for this purpose.) The average "worker" in our Tax Freedom Day or tax bite calculation is a proxy for net national product and the tax burden on that worker is the ratio of total taxes to net national product—in 1989 estimated at 33.9 percent.

Our current year estimate for net national product is derived from averaging thirteen leading economic forecasts. 1989 Federal taxes are the average of projections by the Office of Management and Budget and the Congressional Budget Office, while the tax burden for states/localities is a trend extrapolation. The summary figures for 1988 and 1989 are seen in the table below.

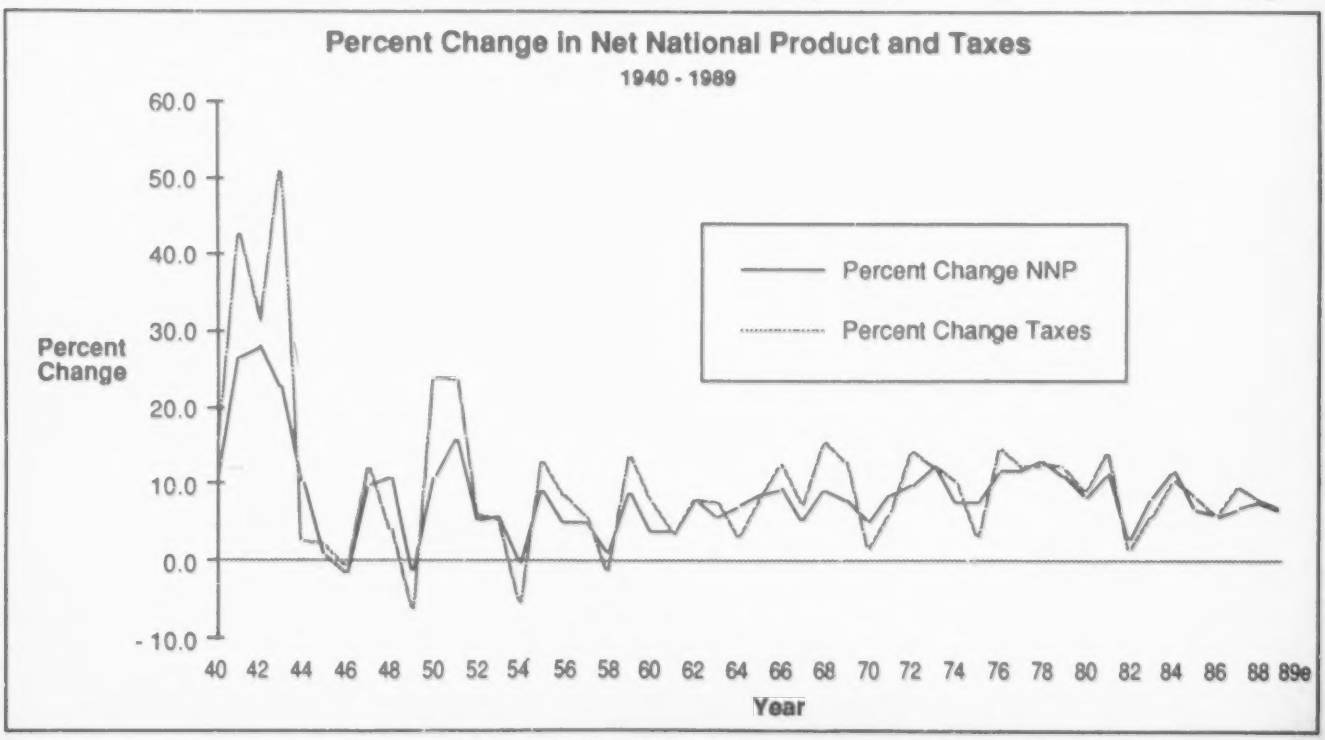
Last year Tax Freedom Day originally was projected to be May 4. Because economic growth was stronger than anticipated, the 1988 tax bite was not quite as heavy and the date slipped back one day to May 3. The history of Tax Freedom Day and the tax bite, shown in the chart on page one and the table on page three, reflect actual data for the particular year and any subsequent revisions.

As indicated by the historical data, the overall tax bite grew sharply in the 1940s and the early 1950s under wartime finance measures, then rose fairly steadily through the mid-1970s before stabilizing in the 1980s. The tax burden at the Federal level peaked in 1981. This was before tax indexing and cuts under the Economic Recovery Act of 1981 (ERTA) took effect. After 1981,

(Continued on page 3)

Year	Taxes ($Billions) Federal	State/ Local	Total	Net National Product ($Billions)	Ratio of Total Taxes/NNP
1988	$962.5	$512.1	$1,474.6	$4,357.9	33.8%
1989(e)	$1,030.1	$543.9	$1,574.0	$4,645.3	33.9%

(e) Estimates by Tax Foundation.



(TAX FREEDOM DAY, *from page 1*)

the Federal burden dipped along with recession and ERTA relief, but more recently has moved back up. The state/local tax burden peaked in 1976-1977 before Proposition #13 in California set off a round of tax limitation measure in the states. After the mid-1970s, the state/local burden dipped until 1981, then resumed its long-term rise—which is likely to continue.

"Payroll taxes .... increase steadily almost regardless of business conditions."

It should be noted that the Tax Freedom Day and tax bite calculation *does not reflect* the $160 billion Federal budget deficit. It can be argued, of course, that the average worker does have a definite "share" in this deficit and will feel its effect through the future tax burden and/or a weaker economy.

Tax Burden May Increase If Economy Falters

In past periods of economic slack, the date of Tax Freedom Day tended to retreat or at least not advance. As the economy slowed, tax receipts, particularly Federal income tax receipts, would slow even more. Also, Congress was apt to enact tax cuts to bolster lagging business activity. Although anti-recessionary fiscal policy measures sometimes had more effect when the economy was recovering, they did hold back the long-term advance in the tax burden as measured by Tax Freedom Day.

Now, however, the tax burden may be less sensitive to the business cycle and less subject to fiscal policy measures. This is shown statistically by the chart on page two comparing the percentage change in net national product and overall taxes by year since 1940. Gradually the two have come together, particularly since the late 1970s.

To cite one factor, income taxes are no longer as dominant in the overall picture. Payroll taxes, which in the Federal sector are now running close to three-quarters the size of individual and corporate income taxes combined, increase steadily almost regardless of business conditions.

More important, perhaps, with multi-billion dollar deficits persisting, Congress is not likely to respond to any economic dropoff (short of complete collapse) with more tax cuts. Any short-term economic stimulation will be left to the monetary authorities and any fiscal action which is undertaken is much more likely to involve actual tax increases. Therefore, the taxpaying public is not likely to feel any real relief in the next inevitable slowdown of the economy.

Pressures on State and Local Finances

State governments are trying to hold the line financially by pulling their belts a little tighter in 1989. Few major tax increases are anticipated. However, the 1989 growth rate in state expenditures is already outpacing the growth rate in revenues and general fund balances continue to shrink.

The dwindling reserves with which states have operated for the last few years threaten their capacity to absorb an economic slowdown without exercising tax options. New Federal mandates such as nursing home reform, welfare reform and catastrophic care will increase pressures on state spending as have cuts in Federal aid to the states. Because of constitutional or statutory requirements that operating budgets be balanced, the effect of any national economic slowdown would require the states to juggle tax increases and spending cuts. During the recession of the early 1980's, states were successful only in reducing the rate of growth in expenditures and relied more heavily on tax increases.

"The dwindling reserves with which states have operated for the last few years threaten their capacity to absorb an economic slowdown without exercising tax options."

Local government revenues are less susceptible to short-term economic fluctuation since they are primarily derived from property taxes, licenses, and user-fees. However, the fallout of reductions in Federal and state aid has intensified pressure on local governments to finance services with increased or new local tax levies. Recent trends show states more willing to allow local governments the authority to expand and implement new local option taxes.

* *

Despite the distaste of all politicians for new taxes, there are strong pressures at both Federal and state/local levels pushing in this direction. And as a weaker economy no longer necessarily means a lighter tax burden, we are likely to see Tax Freedom Day move off its recent plateau and extend further into May.

Tax Freedom Day and Tax Bite In the Eight-Hour Day

Selected Years 1929 - 1989

Year	Tax Freedom Day[a]	Tax Bite in the Eight-Hour Day[b] (Hours:Minutes) Total	Federal	State-Local
1929	February 9	:82	:19	:33
1935	March 1	1:17	:28	:49
1940	March 9[c]	1:29	:45	:44
1945	April 1	1:89	1:36	:23
1950	April 3	2:02	1:30	:32
1955	April 9	2:09	1:34	:35
1960	April 17[c]	2:22	1:40	:42
1965	April 15	2:17	1:33	:44
1970	April 28	2:34	1:40	:54
1975	April 28	2:35	1:38	:57
1980	May 1[c]	2:39	1:48	:51
1981	May 4	2:43	1:52	:51
1982	May 3	2:41	1:48	:53
1983	April 30	2:38	1:43	:55
1984	April 28[c]	2:36	1:42	:54
1985	May 1	2:38	1:44	:54
1986	May 1	2:38	1:43	:55
1987	May 4	2:42	1:47	:55
1988	May 3[c]	2:42	1:46	:56
1989e	May 4	2:43	1:47	:56

[a] "Tax Freedom Day" represents the date on which the average person would finish paying Federal, state, and local taxes if all earnings since January 1 were turned over to governments to fulfill annual tax obligations.

[b] The "Tax Bite in the Eight-Hour Day" reflects the amount of time out of each workday that the average person spends earning enough money to pay tax obligations.

[c] Leap year causes the date of Tax Freedom Day to appear one day earlier.

Source: Tax Foundation computations.

Federal Grants No Bargain for 18 States with $1.26 Average Cost for Each Dollar of Assistance

Federal Grants-In-Aid to State and Local Governments and Estimated Federal Tax Burden for Grants

Fiscal Year 1988

State	Grants[a] ($Millions)	Percent of Total Tax Burden	Estimated Tax Burden for Grants[b] ($Millions)	Tax Burden Per Dollar of Aid	
				Amount	Rank
Total	$108,724.7	100.00%	$108,724.7	$1.00	-
Alabama	1,667.9	1.22	1,324.7	.79	33
Alaska	579.8	.26	278.9	.48	50
Arizona	1,160.7	1.24	1,347.9	1.16	13
Arkansas	1,004.5	.66	719.4	.72	37
California	11,583.8	12.80	13,917.3	1.20	10
Colorado	1,199.6	1.31	1,421.7	1.19	12
Connecticut	1,542.1	2.03	2,210.4	1.43	5
Delaware	318.5	.32	342.8	1.08	16
Florida	3,415.2	5.17	5,616.8	1.64	1
Georgia	2,959.3	2.29	2,494.0	.84	30
Hawaii	477.2	.42	461.6	.97	21
Idaho	458.1	.29	310.0	.68	40
Illinois	4,669.4	5.23	5,684.5	1.22	8
Indiana	1,959.8	1.99	2,168.0	1.11	14
Iowa	1,199.2	.97	1,058.9	.88	26
Kansas	873.3	.95	1,035.7	1.19	11
Kentucky	1,750.7	1.10	1,199.3	.69	38
Louisiana	2,131.9	1.27	1,381.9	.65	43
Maine	684.7	.42	455.1	.66	39
Maryland	2,004.2	2.24	2,435.5	1.22	9
Massachusetts	3,327.6	3.10	3,368.8	1.01	18
Michigan	4,240.6	3.86	4,196.0	.99	19
Minnesota	2,117.4	1.78	1,936.4	.91	24
Mississippi	1,304.6	.63	680.1	.52	46
Missouri	1,938.1	1.96	2,130.9	1.10	15
Montana	504.5	.24	262.9	.52	47
Nebraska	711.5	.56	611.3	.86	28
Nevada	322.8	.45	490.2	1.52	2
New Hampshire	397.3	.53	576.8	1.45	4
New Jersey	3,327.5	4.58	4,979.9	1.50	3
New Mexico	726.1	.44	479.9	.66	42
New York	12,494.2	8.80	9,571.3	.77	34
North Carolina	2,296.2	2.19	2,383.8	1.04	17
North Dakota	451.3	.22	235.0	.52	48
Ohio	4,693.1	4.20	4,570.2	.97	20
Oklahoma	1,402.2	1.04	1,133.3	.81	32
Oregon	1,110.9	.98	1,064.5	.96	22
Pennsylvania	5,790.4	4.85	5,273.8	.91	25
Rhode Island	643.5	.43	469.4	.73	36
South Carolina	1,351.3	1.03	1,123.8	.83	31
South Dakota	439.5	.21	225.8	.51	49
Tennessee	2,084.4	1.64	1,779.6	.85	29
Texas	5,162.2	6.20	6,742.9	1.31	7
Utah	683.7	.46	503.4	.74	35
Vermont	323.5	.20	218.2	.67	41
Virginia	1,958.8	2.54	2,757.3	1.41	6
Washington	2,131.4	1.86	2,020.0	.95	23
West Virginia	1,054.7	.51	556.1	.53	45
Wisconsin	2,226.9	1.80	1,961.7	.88	27
Wyoming	273.8	.16	174.5	.64	44
District of Columbia	1,615.1	.35	380.8	.24	51

[a] Excludes shared revenues and payments in lieu of taxes; includes trust fund aid.
[b] The tax burden for grants is assumed to equal grant payments.

Soure: Tax Foundation computations based on data from the Treasury Department and U.S. Department of Commerce, Bureau of the Census.

There's no free lunch for residents of 18 states whose aggregate Federal tax burden to support grant programs exceeds the amount of grants received by their respective state and local governments, according to Tax Foundation analysis. The 126 million residents of the "paying" states sent Uncle Sam $59.6 billion in taxes to support grant programs, while state-local governments received back $47.5 billion in grants. This figures out to an average $1.26 "cost" per $1.00 of aid.

Looked at another way, these states shouldered over 55 percent of the cost of the $108.7 billion in Federal grants in fiscal year 1988, latest available data, and received less than 44 percent of the payout.

The 120 million residents in the other 32 states and the District of Columbia, on the others hand, paid an average 80 cents in Federal taxes for each dollar of aid received by their state-local governments—$49.1 billion in Federal taxes for $61.3 billion in Federal grants.

Tax Foundation economists emphasize that these comparisons of Federal tax burdens for aid payments per $1.00 of assistance do not actually indicate the entire costs which state and local governments incur for obtaining Federal grants. With few exceptions, states must raise additional funds to

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Tax Features

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Budget Watch By Allen Schick

Playing Budget Games With the Savings and Loan Crisis

The Federal government is expected to spend more than $50 billion in the next two years to close or restructure hundreds of insolvent savings and loan institutions. This expenditure will be the down payment on a long-term rescue package which will probably cost taxpayers upwards of $100 billion by the time the last bills are paid, in the year 2002 or later. However, instead of adding to the deficit, the S&L plan devised by the Administration and currently under consideration in Congress would cause a $9 billion drop in total spending and the deficit for the 1990 fiscal year.

The budgetary alchemy of turning a huge spending increase into a sizeable deficit reduction has a lot to do with the financial problems facing the Federal government and the nation. Because the government's financial commitment is open-ended, the full cost of the S&L bailout will not be known until the 30-year bonds Washington wants to have floated are paid off. Whatever the cost, however, one can be sure that the taxpayers will pick up most of the tab. One should not be surprised if the optimistic cost estimates used in putting together the S&L package prove to be wide of the mark.

"The budgetary alchemy of turning a huge spending increase into a sizeable deficit reduction has a lot to do with the financial problems facing the Federal government and the nation."

Magic of Off-Budget Financing

The key steps in converting a spending increase into a lower deficit are to establish a corporation, authorize it to borrow vast sums of money, provide that the borrowed funds are not to be included in the Budget, and commit the Treasury to stand behind this new debt. This formula was used in 1987 to establish the Financing Corporation (FICO) and authorize it to borrow $10.8 for the Federal Savings and Loan Insurance Corporation (FSLIC), the Federal agency with direct responsibility for thrift institutions. This amount has proven to be much less than is needed, so the new plan calls for borrowing on a much larger scale by a new corporation.

A new Resolution Financing Corporation (REFCORP) would be authorized to borrow $50 billion. The principal on this debt would be covered by long-term zero coupon Treasuries which REFCORP would purchase at an estimated cost of $6 billion, but which would be worth $50 billion at maturity. Part of the interest on the REFCORP debt would be paid by the S&L industry or from the proceeds of liquidated assets. Most, however, would be paid by the Federal government.

"The key steps in converting a spending increase into a lower deficit are to establish a corporation, authorize it to borrow vast sums of money, provide that the borrowed funds are not to be included in the Budget, and commit the Treasury to stand behind this new debt."

Although REFCORP would be established by the Federal government, it would be classified as a private corporation and the funds borrowed would not appear in the budget.

This would not be the end of the story, however. Strangely, the $50 billion borrowed by REFCORP would be recorded in the budget as a reduction in total outlays and, therefore, in the deficit as well. This would happen because REFCORP would be required to promptly turn over the full proceeds of any bonds floated by it to either FSLIC or another new corporation, the Resolution Trust Corporation (RTC), which would be responsible for disposing of insolvent thrift institutions. Unlike REFCORP, RTC would be classified as a government agency; hence, the $50 billion turned over to it and FSLIC would be counted in the budget as an "offsetting collection," a type of receipt which has the effect of reducing budget outlays.

Table 1 on page 6 shows how the flow of funds into and out of REFCORP and other transactions would affect the *budgeted* cost of the S&L crisis. The data cover the 1989-99 decade, but because of recourse to long-term debt, the government will continue to bear heavy financial responsibilities until the REFCORP bonds are retired in the next century. It is also important to keep in mind that these estimates are highly uncertain. In the several months since the Administration plan was unveiled in February 1989, they have been revised several times. Additional adjustments can be expected as conditions change.

The first thing to notice about this table is the dramatic difference between the top line which shows the funds disbursed by Federal agencies (FSLIC/RTC) and the last line which shows the impact on the budget. In both fiscal 1990 and 1991, FSLIC and the new RTC are expected to be active in resolving failed thrifts. Their combined expenditures are projected to be

(Continued on page 6)

(BUDGET WATCH, *from page 5*)

almost $60 billion in these two years, mostly to close or restructure troubled institutions. The *budgeted* outlays of FSLIC/RTC, on the other hand, are projected to be only about one-sixth of this amount, *barely $10 billion*. The difference between the actual and budgeted expenditures is due to the reflow of funds from REFCORP and other sources. Table 2 shows much higher budgeted outlays if the FSLIC bailout were fully included in the budget.

Table 1
Off-budget Treatment of S&L Rescue Proposal
(fiscal years; in billions of dollars)

	1989	1990	1991	1992	1993	1994	1989-1994	1989-1999
FSLIC/RTC Disbursements	27.7	31.7	24.3	10.4	11.0	8.2	113.2	138.2
REFCORP Payments on FSLIC/RTC	-10.0	-25.0	-15.0	0.0	0.0	0.0	-50.0	-50.0
FICO Bonds	-3.8	-3.3	0.0	0.0	0.0	0.0	-7.1	-7.1
Other Collections	-3.2	-2.0	-3.3	-5.8	-6.3	-5.9	-33.5	-50.3
Treasury Payment of REFCORP Interest	0.5	1.4	1.6	0.9	0.8	1.1	6.3	22.0
Total Budgeted Outlays	11.1	2.8	7.6	5.5	5.5	3.4	36.0	59.9

Sources: Office of Management and Budget and Congressional Budget Office

Table 1 also reveals how the bailout has been structured to impact on different fiscal years. The current fiscal year (1989) is estimated to have net budgeted outlays of about $11 billion. This sizeable expenditure will add to the deficit, but because it was incurred (for the most part) after the Gramm-Rudman-Hollings (GRH) projections were made, it will not result in a sequestration of funds. The next fiscal year (1990) is a different story, however. Any additional outlays will increase the likelihood of a GRH sequester later this year unless they are offset by "offsetting collections" such as the REFCORP money. It is not accidental that the S&L rescue has been scheduled to contribute to deficit reduction in 1990.

It is projected that REFCORP will borrow the full $50 billion and remit it to FSLIC/RTC during a 3-year period 1989-1991. Fortuitously, the Administration expects that most insolvent S&Ls will have been liquidated by the time that offsetting money from REFCORP ceases. Hence, the annual burden on future budgets should be fairly manageable. Indeed, the REFCORP device not only removes much of the cost from the 1989-1991 budgets, it also spread the cost over a 30-year period. In so doing, it changes the character of that cost from the direct expenditure of assisting failing institutions to the annual expenses of servicing the REFCORP debt. The Administration has estimated that the Treasury will have to pay $6 billion in interest on the REFCORP debt in the 1989-94 period, but more than $80 billion in later years. Into the next century, REFCORP interest obligations will be an annual "uncontrollable" expenditure of $3-5 billion.

Table 2
Alternative On-budget Treatment of S&L Rescue Proposal
(fiscal years; in billions of dollars)

	1989	1990	1991	1992	1993	1994	1989-1994	1989-1999
FSLIC/RTC Disbursements	27.7	31.7	24.3	10.7	11.3	8.5	114.2	140.6
FSLIC/RTC Collections	-7.8	-8.1	-5.8	-6.1	-6.6	-6.2	-40.6	-58.8
Treasury Payments For REFCORP	0.5	1.4	1.6	0.9	0.8	1.1	6.3	22.0
Total Budgeted Outlays	20.4	25.0	20.1	5.5	5.5	3.4	79.9	103.8

Sources: Office of Management and Budget and Congressional Budget Office

How Should the Budget Deal With the S&L Rescue?

What is the most reasonable way of budgeting for the Federal government's share of the cost of the S&L bailout? The issue is not how much should be spent—that will largely be determined by the extent to which the liabilities of troubled institutions exceed their assets. Two key issues merit attention. (1) Should the government absorb the full cost in the next few years, or should it spread the cost over a 30-year period? (2) Should the near-term costs be removed from the budget through REFCORP financing, or should they be treated as on-budget expenditures?

A consensus appears to have formed around the first issue, but not around the second. Issuing 30-year bonds to pay for expenses that have already been incurred or will be incurred in the next few years will add considerably to interest charges. Indeed, when the dust finally settles on the S&L crisis, these charges are likely to constitute the single largest expense to Federal taxpayers. Nevertheless, the very size of the crisis dictates a long-term solution. The only viable substitutes for bond financing would be to raise an equivalent amount in taxes or make a similar cut in expenditures. Either course of action might have a destabilizing effect on the economy, and both would relieve the S&L industry from their continuing responsibility for the crisis. True, the industry is not presently sturdy enough to bear more than a small part of the total financial exposure, but loading the full cost on current budgets would remove even that obligation.

The second issue—on- or off-budget financing—has split the Ad-

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(BUDGET WATCH, *from page 6*)

ministration and the Congressional Budget Office. The huge difference between the two approaches emerges from a comparison of the top and bottom parts of the table accompanying this article. The year ahead—fiscal 1990—is particularly illuminating. While off-budget financing would leave net outlays of only $2.8 billion, putting the rescue on budget would cause outlays to balloon to $25 billion. Adding $25 billion to the fiscal 1990 deficit would almost certainly put that year's GRH deficit target beyond reach. CBO has estimated that the off-budget issuance of REFCORP bonds would add $100-$200 million a year in interest payments compared to direct financing by the Treasury.

It appear that the sole reason for removing REFCORP from the budget is to show lower outlays than would actually be incurred. The key test for determining whether a corporation should be on- or off-budget is whether it is privately owned. REFCORP does not satisfy the private ownership test. The $50 billion borrowed by REFCORP would carry an explicit government guarantee of interest and an implicit guarantee of the principal. REFCORP's sole purpose would be to raise funds for the government. Its actions and policies would be controlled by a Federal agency. It could not pay any dividends, nor would it ever by likely to have a positive net worth. Finally, REFCORP would have a quasi-governmental power, that of levying and collecting assessments on Federally insured thrifts.

Both the Comptroller General and the Director of the Congressional Budget Office have proposed that the S&L transactions be included in the budget. The latter has also suggested that the cost of closing ailing S&Ls be excluded from the GRH deficit computations on the ground that these payments would not create new liabilities. Rather, they would exchange one liability—the obligations already incurred by FSLIC to insure the deposits of thrift institutions—for another liability—the cost of the bailout. "Excluding spending from the Balanced Budget (GRH) Act," the CBO Director argued, "may set unfortunate precedents, but so does creating off-budget entities to perform government functions."

Everything about the S&L crisis is big: the money lost and assets wasted, the cost to public taxpayers and to private investors. No matter how it is structured, the rescue will cost many tens of billions of dollars. It would be unfortunate if the most enduring lesson would be how to make tens of billions of dollars disappear from the budget without leaving a single trace except the big hole in the taxpayer's purse and the further blow to the credibility of government.

THE FRONT BURNER

By Robert C. Brown
President, Tax Foundation

"Status Quo Is Not Enough"

Tax Freedom Day 1989 is May 4. The average taxpayer will spend 124 days earning the money to pay the tax bill of Federal, state and local government — same as last year, same as the year before, and same as 1981. Some will argue, "Marvelous, we have held the line. The tax writers have made no new incursions into the pockets of our fellow Americans."

That a situation has not worsened may be acceptable in medicine, where the primary rule of treament is "First, do no harm." However, even in medicine, the ultimate goal is to improve the patient's condition, not maintain the status quo.

In tax policy, too, there are grounds for questioning whether the present tax load on the national economy is acceptable simply because it hasn't gotten worse. We had a huge tax cut at the beginning of this decade. We had a much-vaunted commitment to balance the deficit and hold the lid on spending in the Gramm-Rudman-Holllings deficit reduction measure. We had what was supposed to be the first major tax overhaul in a generation with the Tax Reform Act of 1986. Yet, we are no better off than we were eight years ago. Apparently, as the Queen of Hearts told Alice, "It takes all the running you can do, to keep in the same place."

At the Federal level, a significant portion of the individual income tax rate cuts have been paid for by shifting the burden to the corporate sector, by devising a panoply of "non-tax taxes," by returning to states and localities responsibility for funding many programs once covered by Federal grants (resulting in higher state taxes). By creating quasi-governmental agencies Uncle Sam has used credit to mask debt. By mandating benefits for which government gets the applause and employers get the bill, the Congress has managed to have the best of both worlds — gain with no (perceived) pain.

We are in the longest peace-time expansion in history. This automatically increases the net take of the tax collector, and that take now equals 33.9% of Net National Product. Yet, the deficit proves intractable, a clamor is made for more taxes, and everyone seems to have a pet program to be begun or expanded at taxpayers' expense.

So this Tax Freedom Day, rather than rejoice that we have finally begun earning for ourselves, maybe we should examine the fact that, like the mad Queen, we are merely running in place when it comes to making government more cost effective.

One would hope that fiscal policy could find a better role model than *Alice in Wonderland*.

(GRANTS-IN-AID, *from page 4*)

administer the programs for which aid is granted and and must also allocate matching funds to qualify as recipients. Foundation researchers estimate that state and local jurisdictions must provide about 42 cents of matching funds for each $1.00 of Federal aid coming to them.

These tax burdens are estimated by the Tax Foundation, using a formula that measures the final geographic burden of taxes, as distinguished from the area of initial impact.

In the grant "sweepstakes," Foundation calculations list the following as the top ten "paying" states:

Rank and State	Tax Burden Per $1 of Aid
1) Florida	$1.64
2) Nevada	1.52
3) New Jersey	1.50
4) New Hampshire	1.45
5) Connecticut	1.43
6) Virginia	1.41
7) Texas	1.31
8) Illinois	1.22
9) Maryland	1.22
10) California	1.20

The ten lowest "payors" were:

51) District of Columbia	.24
50) Alaska	.48
49) South Dakota	.51
48) North Dakota	.52
47) Montana	.52
46) Mississippi	.52
45) West Virginia	.53
44) Wyoming	.64
43) Louisiana	.65
42) New Mexico	.66

The table on page two gives total and per capita tax burdens per dollar of Federal aid by state, for fiscal year 1988, latest data available.

(TAX BURDEN, *from page 1*)

These "big ten" states will send Uncle Sam $588.2 billion in FY89, 62 percent of all Federal taxes.

At the lower end of the scale, tax burdens will be lightest on the following nine states, plus the District of Columbia:

	($Millions)		($Millions)
Maine	$ 3,975	Montana	$ 2,299
D.C.	3,323	N. Dakota	2,051
Delaware	2,996	S. Dakota	1,978
Idaho	2,707	Vermont	1,903
Alaska	2,430	Wyoming	1,523

These bottom 10 states will pay only 2.7 percent of the total Federal tax burden, a total of $25.2 billion.

Per Capita Tax Burdens

When total Federal taxes paid are ranked according to the per capita burden in a given state, Tax Foundation researchers note an average increase of $227 over 1988 amounts. On average, the national per capita Federal tax burden will hit $3,825 in FY89. Per person, the largest burden is carried in these nine states and the District of Columbia:

Connecticut	$ 5,959	Maryland	$ 4,606
New Jersey	5,603	New Hampshire	4,594
D.C.	5,386	Delaware	4,553
Massachusetts	4,999	Alaska	4,301
New York	4,675	Illinois	4,270

The average Federal tax burden per capita for citizens in the top ten states is $4,532. Lowest burdens, an average of $2,535, are borne by taxpayers in the following ten states:

Kentucky	$ 2,798	Idaho	$ 2,673
S. Carolina	2,796	Arkansas	2,623
S. Dakota	2,771	West Virginia	2,577
Louisiana	2,705	Utah	2,521
New Mexico	2,691	Mississippi	2,241

Tax Foundation researchers point out that citizens in the top ten states will pay an average per capita tax burden that is $2,254 higher than citizens in the lowest per capita states. See table on page 4 for further detail.

Note: "Memorandum on the Allocation of the Federal Tax Burden by State, Fiscal Years 1988–90," and "Federal Tax Burdens in States and Metropolitan Areas," which provide a 10-year tax burden history and explain the methodology of the study, are each available from the Tax Foundation for $4 + $1 p/h.

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